

TOP INVESTOR TRAPS OF 2008

Beware of “hot” investor tips related to industries you may be seeing in the news — criminals stay current with the news and choose topics that lend their schemes a cloak of legitimacy. The Department of Financial Institutions (DFI) warns investors to beware of energy-related tips, speculative real estate promotions, unsolicited invitations from new online “friends” and complex investment products that fail to offer clear disclosures of their risks and costs.

Energy — The substantial increase in energy costs has made scams related to energy more prevalent. These include oil and gas investments and the development of new energy efficiency or extraction technologies.

Real Estate — As the housing market continues to reel from the subprime lending crisis, schemes promising large returns from real estate-related investments also are increasing. Promoters may try to dump worthless investments off on unsuspecting investors. Also reverse mortgage investments may pose risks.

Social Networking — Unscrupulous individuals are using social networking Web sites to lure people to meetings that may promote fraudulent or unsuitable investment products. Gaining someone’s trust in order to sell a scheme is called “affinity fraud.” Con artists can take advantage of the way information is freely shared and posted to profiles.

Auction-Rate Securities — Investors should remain cautious when pitched complex investment products that don’t come with the appropriate disclosures. And as always, don’t concentrate all investments into one product.

Unsuitable Investments — What might be suitable for one investor might not be right for another. Securities professionals must know their customers’ financial situation and refrain from recommending investments they have reason to believe may not be appropriate for a customer’s age, risk tolerance and need for access to the money.

In addition to these trends, DFI warns that a number of familiar investment traps are likely to persist for the foreseeable future. Investors should beware of fraudulent private securities offerings, pump and dump schemes, sale and leaseback contracts, prime bank schemes, and promissory notes.

Remember: If it sounds too good to be true, it usually is. Make sure you thoroughly understand the product, read the appropriate disclosures and check out both the salesperson and the product with your state securities regulator:

KENTUCKY DEPARTMENT OF FINANCIAL INSTITUTIONS

www.kfi.ky.gov

502-573-3390 OR 800-223-2579

For more information on investor traps, visit the North American Securities Administrators Association (NASAA) Fraud Center at www.nasaa.org. NASAA is the oldest international organization devoted to investor protection. DFI is a member of NASAA.